OTC Pink® Basic Disclosure Guidelines

Federal securities laws, such as Rules 10b-5 and 15c2-11 of the Securities Exchange Act of 1934 ("Exchange Act") as well as Rule 144 of the Securities Act of 1933 ("Securities Act"), and state Blue Sky laws, require issuers to provide *adequate current information* to the public markets. With a view to encouraging compliance with these laws, OTC Markets Group has created these OTC Pink Basic Disclosure Guidelines. We use the basic disclosure information provided by OTC Pink companies under these guidelines to designate the appropriate tier in the OTC Pink marketplace: Current, Limited or No Information. OTC Markets Group may require companies with securities designated as Caveat Emptor to make additional disclosures in order to qualify for OTC Pink Current Information tier.

Qualifications for the OTC Pink - Current Information Tier

Companies that make the information described below publicly available on a timely basis (90 days after fiscal year end for Annual Reports; 45 days after each fiscal quarter end for Quarterly Reports) qualify for the Current Information Tier. Financial reports must be prepared according to U.S. GAAP or IFRS, but are *not required to be audited* to qualify for the OTC Pink Current Information tier.

Initial Qualification:

1. Subscribe to the OTC Disclosure & News Service on www.OTCIQ.com to publish your financial reports and material news.

2. Create the following documents, save them in PDF format and upload them via www.OTCIQ.com:
   - Annual Financial statements (Document must Include: Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements) for the previous two fiscal years. If these reports are audited, please attach the audit letter from the PCAOB registered audit firm. Each year's Annual Financial statements should be posted separately under the report type "Annual Report" in OTCIQ.
   - Any subsequent Quarterly Reports since the most recent Annual Report.
   - The most recent fiscal period end report should also include information in accordance with these OTC Pink Basic Disclosure Guidelines; use the fillable form beginning on page 3.

3. If financial reports are not audited by a PCAOB registered audit firm:
   - Submit a signed Attorney Letter Agreement (first two pages of the Attorney Letter Guidelines).
   - After following the appropriate procedures with a qualified attorney, upload an Attorney Letter complying with Attorney Letter Guidelines through your otciq.com account.

Ongoing Qualification:

1. **For each Fiscal Quarter End**, upload a Quarterly Report via www.OTCIQ.com within **45** days of the quarter end. (A separate quarterly report is not required for the 4th quarter.) The Quarterly Report should include:
   - Information in accordance with these OTC Pink Basic Disclosure Guidelines -- use the fillable form beginning on page 3.
   - Quarterly financial statements (Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements).
   - No Audit Letter or Attorney Letter is required**.**

2. **For each Fiscal Year End**, upload an Annual Report within **90 days** of the fiscal year end. The Annual Report should include:
   - Information in accordance with these OTC Pink Basic Disclosure Guidelines -- use the fillable form beginning on page 3.
   - Annual financial statements (Balance Sheet, Income Statement, Statement of Cash Flows, Notes to Financial Statements, and Audit Letter, if the financial statements are audited).

3. If financial reports are not audited by a PCAOB registered audit firm, upload an Attorney Letter via www.OTCIQ.com complying with the Attorney Letter Guidelines within **120 days** of the fiscal year end.

Qualifications for the OTC Pink - Limited Information Tier

Companies that make the information described below publicly available within the prior 6 months qualify for the Limited Information Tier.

1. Subscribe to the OTC Disclosure & News Service on www.OTCIQ.com to publish your financial reports and material news.
2. Create a Quarterly Report or Annual Report for a fiscal period ended within the previous 6 months, save it in PDF format and upload it via www.OTCIQ.com. The Quarterly Report or Annual Report includes:
    - Balance Sheet, Income Statement, and Total Number of Issued and Outstanding Shares. Financial statements must be prepared in accordance with US GAAP, but are not required to be audited. (Please note that Cash Flow Statements are not required to qualify for the Limited Information tier; however, unless the financial statements include a Cash Flow Statement, no financial data will be included in the OTC Financials Data Service, which distributes company financial data to online investor portals and makes the data available on your company's Financials tab on www.otcmarkets.com)
    - A company in the Limited Information tier, may, but is not required to, include information in accordance with these OTC Pink Basic Disclosure Guidelines using the fillable form beginning on page 3.

Current Reporting of Material Corporate Events

OTC Markets Group encourages companies to make public disclosure available regarding corporate events that may be material to the issuer and its securities. Persons with knowledge of such events would be considered to be in possession of material nonpublic information and may not buy or sell the issuer's securities until or unless such information is made public. If not included in the issuer's previous public disclosure documents or if any of the following events occur after the publication of such disclosure documents, the issuer shall publicly disclose such events by disseminating a news release within 4 business days following their occurrence, and posting such news release through the OTC Disclosure & News Service.

Material corporate events include:

- Entry or Termination of a Material Definitive Agreement
- Completion of Acquisition or Disposition of Assets, Including but not Limited to mergers
- Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of an Issuer
- Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement
- Costs Associated with Exit or Disposal Activities
- Material Impairments
- Sales of Equity Securities
- Material Modification to Rights of Security Holders
- Changes in Issuer's Certifying Accountant
- Non-Reliance on Previously Issued Financial Statements or a Related Audit Report or Completed Interim Review
- Changes in Control of Issuer
- Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers
- Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year
- Amendments to the Issuer's Code of Ethics, or Waiver of a Provision of the Code of Ethics
- Other events the issuer considers to be of importance

1) Name of the issuer and its predecessors (if any)

In answering this item, please also provide any names used by predecessor entities in the past five years and the dates of the name changes.

Calloway's Nursery, Inc.

2) Address of the issuer's principal executive offices

Company Headquarters
Address 1: 4200 Airport Freeway
Address 2: Suite 200
Address 3: Fort Worth, TX 76117-6200
Phone: 817.222.1122
Email: Info@Calloways.com
Website(s): www.Calloways.com

IR Contact
Address 1: 4200 Airport Freeway
Address 2: Suite 200
Address 3: Fort Worth, TX 76117-6200
Phone: 817.222.1122
Email: Info@Calloways.com
Website(s): www.Calloways.com

3) Security Information

Trading Symbol: CLWY
Exact title and class of securities outstanding: Common Stock
CUSIP: 131255
Par or Stated Value: $.01
Total shares authorized: 30,000,000 as of: 03/18/15
Total shares outstanding: 8,378,373 as of: 03/18/15

Additional class of securities (if necessary):
Trading Symbol: _____
Exact title and class of securities outstanding: _____
CUSIP: _____
Par or Stated Value: _____
Total shares authorized: _____ as of: _____
Total shares outstanding: _____ as of: _____

Transfer Agent
Name: Computershare
Address 1: PO Box 30170
Address 2: College Station, TX 77842-3170
Address 3: _____
Phone: 800.577.4676
Is the Transfer Agent registered under the Exchange Act?* Yes: ☒ No: ☐

*To be included in the OTC Pink Current Information tier, the transfer agent must be registered under the Exchange Act.

List any restrictions on the transfer of security:

None

Describe any trading suspension orders issued by the SEC in the past 12 months.

None

List any stock split, stock dividend, recapitalization, merger, acquisition, spin-off, or reorganization either currently anticipated or that occurred within the past 12 months:

None

4) Issuance History

List below any events, in chronological order, that resulted in changes in total shares outstanding by the issuer in the past two fiscal years and any interim period. The list shall include all offerings of equity securities, including debt convertible into equity securities, whether private or public, and all shares or any other securities or options to acquire such securities issued for services, describing (1) the securities, (2) the persons or entities to whom such securities were issued and (3) the services provided by such persons or entities. The list shall indicate:

A. The nature of each offering (e.g., Securities Act Rule 504, intrastate, etc.);

Stock Purchase Plan

B. Any jurisdictions where the offering was registered or qualified;

US

C. The number of shares offered;

99,695

D. The number of shares sold;

99,695

E. The price at which the shares were offered, and the amount actually paid to the issuer;

Various

F. The trading status of the shares; and

Held in trust by Computershare for beneficial owners

G. Whether the certificates or other documents that evidence the shares contain a legend (1) stating that the shares have not been registered under the Securities Act and (2) setting forth or referring to the restrictions on transferability and sale of the shares under the Securities Act.

Yes

5) Financial Statements

Provide the financial statements described below for the most recent fiscal year end or quarter end to maintain qualification for the OTC Pink Current Information tier. For the initial disclosure statement (qualifying for Current Information for the first time) please provide reports for the two previous fiscal years and any interim periods.

A. Balance sheet;
B. Statement of income;
C. Statement of cash flows;
D. Financial notes; and
E. Audit letter, if audited

The financial statements requested pursuant to this item shall be prepared in accordance with US GAAP by persons with sufficient financial skills.

You may either (i) attach/append the financial statements to this disclosure statement or (ii) post such financial statements through the OTC Disclosure & News Service as a separate report using the appropriate report name for the applicable period end. ("Annual Report," "Quarterly Report" or "Interim Report").

If you choose to publish the financial reports separately as described in part (ii) above, you must state in the accompanying disclosure statement that such financial statements are incorporated by reference. You may reference the document(s) containing the required financial statements by indicating the document name, period end date, and the date that it was posted to otciq.com in the field below.

Information contained in a Financial Report is considered current until the due date for the subsequent Financial Report. To remain in the OTC Pink Current Information tier, a company must post its Annual Report within 90 days from its fiscal year-end date and Quarterly Reports within 45 days of its fiscal quarter-end date.

6) Describe the Issuer's Business, Products and Services

Describe the issuer's business so a potential investor can clearly understand the company. In answering this item, please include the following:

A. a description of the issuer's business operations;

Founded in 1986, Calloway's Nursery, Inc. is an 18-store garden center chain serving the Dallas - Fort Worth and Houston markets as Calloway's Nursery in D/FW and Cornelius Nursery in Houston. The company strives to make gardening fun, easy and successful for customers by offering expert advice from Texas Certified Nursery Professionals; store environments that are educational and easy to shop; gardening clinics that serve both novice and expert gardeners; displays and instructions to aid gardeners with design and color development in their yards; and a product selection of the best plant varieties available.

B. Date and State (or Jurisdiction) of Incorporation:

03/86 TX

C. the issuer's primary and secondary SIC Codes;

5261-04

D. the issuer's fiscal year end date;

12/31

E. principal products or services, and their markets;

Living plants and garden-related merchandise; retail; Texas.

7) Describe the Issuer's Facilities

The goal of this section is to provide a potential investor with a clear understanding of all assets, properties or facilities owned, used or leased by the issuer.

In responding to this item, please clearly describe the assets, properties or facilities of the issuer, give the location of the principal plants and other property of the issuer and describe the condition of the properties. If the issuer does not have complete ownership or control of the property (for example, if others also own the property or if there is a mortgage on the property), describe the limitations on the ownership.

If the issuer leases any assets, properties or facilities, clearly describe them as above and the terms of their leases.

The following table provides information on the company's real properties. For additional information, see Notes to the 2012 Consolidated Financial Statements as referenced.

Type of facility	Location	Owned/Leased	Reference
Retail store	2100 N. Plano Rd., Richardson, TX 75082	Owned	Notes 4, 6
Retail store	4220 N. Galloway, Mesquite, TX 75150	Owned	Notes 12, 15
Retail store	1621 Custer Pkwy., Plano, TX 75075	Owned	Notes 4, 6
Retail store	4940 S. Cooper, Arlington, TX 76017	Owned	Notes 4, 6
Retail store	7410 N. Greenville Ave., Dallas, TX 75231	Leased	Note 12
Retail store	723 S. Cockrell Hill, Duncanville, TX 75137	Leased	Note 12
Retail store	1000 Preston Rd., Plano, TX 75093	Leased	Note 12
Retail store	423 East FM 3040, Lewisville, TX 75067	Leased	Note 12
Retail store	2651 South Hulen, Fort Worth, TX 76109	Owned	Notes 4, 6
Retail store	760 Grapevine Hwy., Hurst, TX 76054	Leased	Note 12
Retail store	1601 Dallas Drive, Denton, TX 76205	Leased	Note 12
Retail store	4050 W. Eldorado Pkwy., McKinney, TX 75070	Owned	Notes 4, 6
Retail store	1424 N. Center St., Arlington, TX 76011	Leased	Note 12
Retail store	2901 Long Prairie, Flower Mound, TX 75022	Leased	Note 12, 15
Retail store	291 E. Southlake Blvd, Southlake, TX 76092	Owned	Notes 4, 6
Land held for sale	Southlake, TX	Owned	Notes 4, 6, 14
Retail store	2460 State Hwy 121, Plano, TX 75025	Leased	Note 12
Land held for sale	Frisco, TX	Owned	Notes 4, 6, 14, 15
Retail store	1801 FM 423, Little Elm, TX 75068	Leased	Note 12
Retail store	2233 South Voss Road, Houston, TX 77057	Owned	Notes 4, 6
Office	4200 Airport Freeway., Fort Worth, TX 76117	Leased	Note 12

8) Officers, Directors, and Control Persons

The goal of this section is to provide an investor with a clear understanding of the identity of all the persons or entities that are involved in managing, controlling or advising the operations, business development and disclosure of the issuer, as well as the identity of any significant shareholders.

A. Names of Officers, Directors, and Control Persons. In responding to this item, please provide the names of each of the issuer's executive officers, directors, general partners and control persons (control persons are beneficial owners of more than five percent (5%) of any class of the issuer's equity securities), as of the date of this information statement.

James Estill, John Cosby, John Peters, Daniel Feehan, Peter Kamin, Alan Howe, Daniel Reynolds, David Straus, Marce Ward

B. Legal/Disciplinary History. Please identify whether any of the foregoing persons have, in the last five years, been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

   None

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

   None

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

   None

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred suspended or otherwise limited such person's involvement in any type of business or securities activities.

   None

C. Beneficial Shareholders. Provide a list of the name, address and shareholdings or the percentage of shares owned by all persons beneficially owning more than ten percent (10%) of any class of the issuer's equity securities. If any of the beneficial shareholders are corporate shareholders, provide the name and address of the person(s) owning or controlling such corporate shareholders and the resident agents of the corporate shareholders.

James Estill, 4200 Airport Freeway, Fort Worth, TX 76117-6200 – 1,642,293 shares
Peter Kamin, 40 Briarcliff Road, Longmeadow, MA 01106 – 1,619,095 shares
John Cosby, 1134 Mistletoe Drive, Fort Worth, TX 76110 – 871,628 shares

9) Third Party Providers

Please provide the name, address, telephone number, and email address of each of the following outside providers that advise your company on matters relating to operations, business development and disclosure:

Legal Counsel
Name: Margaret Holland
Firm: Holland, Johns & Penny, LLP
Address 1: 306 West 7th Street, Suite 500
Address 2: Fort Worth, TX 76102-4982
Phone: 817.335.1050
Email: meh@hjpllp.com

Accountant or Auditor
Name: Griff Babb
Firm: Whitley Penn LLP
Address 1: 1400 West 7th Street, Suite 400
Address 2: Fort Worth, TX 76102
Phone: 817.258.9100
Email: Griff.Babb@WhitleyPenn.com

Investor Relations Consultant
Name: None

Other Advisor: Any other advisor(s) that assisted, advised, prepared or provided information with respect to this disclosure statement.
Name: None

10) Issuer Certification

I, Daniel G. Reynolds certify that:

1. I have reviewed this annual disclosure statement of Calloway's Nursery, Inc.;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

CALLOWAY'S NURSERY, INC.



Vice President and Chief Financial Officer

CALLOWAY'S NURSERY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013
with Report of Independent Auditors

CALLOWAY'S NURSERY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2014 and 2013

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whitleypenn

Fort Worth Office
1400 West 7th Street
Suite 400
Fort Worth, Texas 76102
817.259.9100 Main

whitleypenn.com

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Shareholders of
Calloway's Nursery, Inc.

We have audited the accompanying consolidated financial statements of Calloway's Nursery, Inc., a Texas corporation, and subsidiaries which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Calloway's Nursery, Inc. and subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Whitley Penn LLP

Fort Worth, Texas
March 11, 2015

Calloway's Nursery, Inc.
Consolidated Balance Sheets
(amounts in thousands, except share amounts)

Assets

	December 31,	
	2014	**2013**
Cash and cash equivalents	$ 6,121	$ 3,887
Accounts receivable	48	50
Inventories	2,069	2,403
Prepaids	74	55
Deferred income taxes	217	90
Property held for sale	1,240	1,508
Total current assets	9,769	7,993
Property and equipment, net	13,337	15,299
Restricted cash	9,143	--
Deferred income taxes	--	135
Other assets	194	166
Total assets	$32,443	$23,593

Liabilities and Shareholders' Equity

Accounts payable and accrued expenses	$ 5,322	$ 5,169
Current portion of long-term debt	942	896
Total current liabilities	6,264	6,065
Long-term debt, net of current portion	6,850	9,375
Deferred rent payable	74	55
Deferred income taxes	2,817	--
Total liabilities	16,005	15,495
Commitments and contingencies		
Shareholders' equity:		
Common stock ($.01 par value; 30,000,000 shares authorized; 8,640,260 shares issued)	86	86
Additional paid-in capital	11,082	11,082
Retained earnings (accumulated deficit)	6,678	(1,662)
	17,846	9,506
Less: treasury stock, at cost (261,888 shares)	(1,408)	(1,408)
Total shareholders' equity	16,438	8,098
Total liabilities and shareholders' equity	$32,443	$23,593

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Income
(amounts in thousands, except per share amounts)

	Year Ended December 31,	
	2014	**2013**
Net revenue	$53,515	$46,644
Cost of goods sold	27,055	24,104
Gross profit	26,460	22,540
Operating expenses	16,378	14,835
Advertising expenses	1,549	1,524
Occupancy expenses	3,599	3,372
Depreciation and amortization	518	518
Net interest expense	566	593
Proxy contest expense	--	373
Total expenses	22,610	21,215
(Gain) on disposals and impairments of properties	(8,874)	--
Income before provision for income taxes	12,724	1,325
Income tax expense	4,384	498
Net income	$ 8,340	$ 827
Weighted average number of common shares outstanding - basic and diluted	8,378	8,358
Net income per common share - basic and diluted	$1.00	$0.10

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Shareholders' Equity
(amounts in thousands)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Total
	Shares	Amount				
Balance January 1, 2013	8,541	$85	$11,001	($2,489)	($1,408)	$7,189
Net income	--	--	--	827	--	827
Issued under Stock Purchase Plan (Note 10)	99	1	81	--	--	82
Balance December 31, 2013	8,640	86	11,082	(1,662)	(1,408)	8,098
Net income	--	--	--	8,340	--	8,340
Balance December 31, 2014	8,640	$86	$11,082	$6,678	($1,408)	$16,438

The accompanying notes are an integral part of these consolidated financial statements.

Calloway's Nursery, Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)

	Year Ended December 31,	
	2014	**2013**
Cash flows from operating activities:		
Net income	$8,340	$ 827
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	518	518
Deferred income taxes	2,825	84
(Gain) on disposal and impairment of properties	(8,874)	--
Change in operating assets and liabilities:		
Inventories	334	(149)
Accounts payable and accrued expenses	153	316
Other operating assets and liabilities	(26)	12
Net cash flows provided by operating activities	3,270	1,608
Cash flows from investing activities:		
Additions to property and equipment	(117)	(2,126)
Proceeds from sale of property	9,143	--
Increase in restricted cash from sale of property	(9,143)	--
Proceeds from sale/leaseback of property and equipment	--	1,000
Net cash flows used for investing activities	(117)	(1,126)
Cash flows from financing activities:		
Repayments of debt	(919)	(845)
Proceeds from issuance of common stock	--	82
Net cash flows used for financing activities	(919)	(763)
Net increase (decrease) in cash and cash equivalents	2,234	(281)
Cash and cash equivalents at beginning of year	3,887	4,168
Cash and cash equivalents at end of year	$6,121	$3,887
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	$534	$571
Income taxes	$1,553	$505
Supplemental disclosure of noncash activities:		
Additions to property and equipment financed with issuance of debt	$--	$30
Transfer of property and equipment to property held for sale	$762	$--
Repayment of long-term debt with restricted proceeds from property sale	$1,560	$--

The accompanying notes are an integral part of these consolidated financial statements.

Note 1 – Organization and nature of the Company

Calloway's Nursery, Inc. (the "Company") operates 18 retail garden centers in the two largest metropolitan areas in Texas: Dallas -Fort Worth (as *Calloway's Nursery*) and Houston (as *Cornelius Nursery*).

History

1986 The Company was founded.

1987 The Company opened its first four retail stores in the Dallas -Fort Worth market.

1997 The Company entered the growing segment of the nursery industry when it acquired the Miller Plant Farms growing operation ("Miller").

1999 The Company acquired certain assets of Cornelius Nurseries, Inc. (“Cornelius”) and two affiliated entities ("the Cornelius Acquisition"). The Cornelius Acquisition added three retail stores in the Houston market, the Turkey Creek Farms growing operation near Houston ("Turkey") and two wholesale distribution centers (one in Houston and one near Austin).

2002 The Company sold the two wholesale distribution centers it had acquired in the Cornelius Acquisition; it adopted a formal plan to dispose of Turkey, discontinuing the plant material that Turkey had produced; and it entered the San Antonio market by leasing seven former nursery locations (this new market entry did not constitute a business combination).

2003 The Company adopted a formal plan to dispose of Miller, discontinuing the plant material that Miller had produced; it also completed the sale of both Turkey and Miller.

2008 The Company closed its San Antonio market retail stores at the end of their lease terms.

The Company currently operates strictly in the retail segment of the nursery industry with retail stores in the Dallas-Fort Worth and Houston markets.

Note 1 – Organization and nature of the Company (continued)

Wholly-owned subsidiaries

The Company has two wholly-owned subsidiaries:

Cornelius is a company that owns the Cornelius Nursery retail store property in the Houston market and the related indebtedness.

Calloway's Nursery Frisco, Inc. is a company that owns property held for sale in Frisco, Texas, a suburb in the Dallas - Fort Worth market, and the related indebtedness.

Business

The Company derives substantially all of its revenues from sales of living plants and related products to consumers. No single product or customer accounts for a material portion of its revenues.

Economic, weather and other circumstances that may exist from time-to-time in the Company's market areas can have a significant impact on the Company's results of operations.

Note 2 – Summary of significant accounting policies

The following is a summary of significant accounting policies followed in the preparation of these consolidated financial statements.

Basis of accounting - The accounts are maintained, and the consolidated financial statements have been prepared, using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Cash equivalents - For purposes of the consolidated financial statements the Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts receivable - The Company's accounts receivable are primarily related to credit card transactions. The Company's retail stores accept MasterCard, VISA, American Express and Discover. No allowance for doubtful accounts is considered necessary since substantially all amounts are collected within five business days.

Inventories - Inventories are stated at the lower of cost or market, with cost being determined principally on a first-in, first-out basis. All of the Company's inventories consist of finished goods.

Note 2 – Summary of significant accounting policies (continued)

Property and equipment - Property and equipment are capitalized at cost: including interest capitalized in connection with major long-term construction projects, and depreciated using the straight-line method over the estimated useful lives of the various classes of assets. Leasehold improvements are amortized on a straight-line basis over the shorter of the asset life or the lease term. Expenditures for normal maintenance and repairs are expensed as incurred. The cost of property and equipment sold or otherwise retired, and the related accumulated depreciation and amortization are removed from the accounts and any resultant gain or loss is included in the operating results of the respective period.

The useful lives for purposes of calculating depreciation and amortization are as follows:

Land improvements	15 years
Buildings	33 years
Leasehold improvements	Shorter of asset life or lease term
Furniture and fixtures	5 years
Equipment	5 years
Vehicles	3 years

The Company evaluates the propriety of the carrying amounts of its property and equipment as well as the depreciation and amortization periods annually and when events and circumstances indicate that impairment may have occurred. Recoverability of property and equipment to be held and used is measured by the comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If such assets are considered impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated discounted future cash flows.

As discussed in Note 14, the Company recorded an impairment charge of $1,030,000 for the year ended December 31, 2014, and reclassified certain property to Property Held for Sale. Management believes that no other impairments have occurred and that no further reduction of carrying amounts is warranted.

Revenue recognition - The Company recognizes revenue when the customer takes possession of the merchandise.

Note 2 – Summary of significant accounting policies (continued)

Gift card revenue recognition - At the time gift cards are sold, no revenue is recognized; rather, a liability is established for the face amount of the card. The liability remains recorded until the earlier of redemption, escheatment or expiration. The liability is relieved and revenue is recognized when gift cards are redeemed for merchandise. Unredeemed gift card liability is included in accounts payable and accrued expenses (see Note 5).

Advertising expenses - The majority of the Company's advertising consists of printed newspaper advertisements, radio announcements, direct mail and electronic mail. The Company is also active with its Web site and social media. The Company expenses all advertising costs as they are incurred.

Income taxes - Income taxes are accounted for under the "liability method". Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases as well as operating loss and tax credit carryovers. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

US GAAP prescribes a comprehensive model for the financial statement recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The Company classifies any interest recognized on an underpayment of income taxes as interest expense and classifies any statutory penalties recognized on a tax position taken as operating expense. Management of the Company has not taken a tax position that, if challenged, would be expected to have a material effect on the consolidated financial statements or the effective tax rate for the years ended December 31, 2014 and 2013.

The Company files income tax returns in the United States federal jurisdiction and the state of Texas. The tax years which remain open to potential examination by the tax authorities as of December 31, 2014 include each of the years from 2011 through 2013. No tax returns are currently under examination by any tax authorities and the Company has not incurred any penalties or interest related to such tax returns.

Note 2 – Summary of significant accounting policies (continued)

Net income per common share - Basic net income per common share is computed by dividing income attributable to common shareholders by the weighted average number of common shares outstanding for the period. Diluted net income per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings or loss of the Company. There were no dilutive securities at December 31, 2014 and 2013.

Stock-based compensation - The Company sponsors a stock-based compensation plan for its employees and directors. There were no stock options issued in the years ended December 31, 2014 and 2013, all outstanding stock options were fully vested prior to January 1, 2013 and all outstanding stock options had expired as of December 31, 2014 (see Notes 9 and 10).

Use of estimates - The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

As described in Note 7, the Company did not record a valuation allowance for its deferred tax assets at December 31, 2014 and 2013. Such an estimate could change in the future based on the occurrence of one or more future events.

As described in Note 13, the Company intends to reinvest proceeds from the sale of property in "like-kind" exchanges as provided in Internal Revenue Code Section 1031 ("Section 1031"). Accordingly, a deferred tax liability has been recorded for this transaction. The amount and timing of future income taxes related to this transaction may vary depending upon the Company's ability to complete qualifying "like-kind" exchange transactions within the applicable time frames provided under Section 1031.

As described in Note 14, the Company recorded impairment charges on two parcels of undeveloped land that are Held for Sale to their estimated net realizable values. Actual proceeds could vary from such estimates.

Note 2 – Summary of significant accounting policies (continued)

Fair value of financial instruments - The carrying values of the Company's financial instruments, other than long-term debt, approximate their respective fair values due to the short maturities of such instruments. The Company's borrowings, if recalculated based on current interest rates, would not differ significantly from the amounts recorded at December 31, 2014 and 2013.

Principles of consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated in consolidation.

Sales taxes - The Company includes sales taxes as a line item at the point of invoicing customers for taxable transactions. These taxes are recorded net (excluded from revenue and costs) to a payable account. At the point of remitting the taxes to the proper authority, the payable account is relieved.

Note 3 – Cash and cash equivalents

Cash and cash equivalents at December 31 consist of the following (amounts in thousands):

	2014	2013
Demand deposit accounts	$6,099	$3,870
Petty cash	22	17
	$6,121	$3,887

Note 4 – Property and equipment, net

Property and equipment at December 31 consist of the following (amounts in thousands):

	2014	2013
Land	$6,991	$8,429
Land improvements	1,208	1,254
Buildings	7,434	7,662
Leasehold improvements	2,011	2,011
Furniture and fixtures	698	698
Equipment	1,802	1,768
Vehicles	774	853
Construction in process	27	--
	20,945	22,675
Less: accumulated depreciation and amortization	(7,608)	(7,376)
	$13,337	$15,299

Note 5 – Accounts payable and accrued expenses

At December 31 the Company's accounts payable and accrued expenses consist of the following (amounts in thousands):

	2014	2013
Accounts payable	$2,412	$3,085
Payroll	1,416	650
Gift cards	535	527
Property taxes	634	624
Income taxes	79	73
Sales taxes	246	210
	$5,322	$5,169

Note 6 – Long-term debt

Long-term debt consists of the following (amounts in thousands):

Description		Matures (Year)	Interest rate		Balance as of December 31, 2014	2013
Revolving credit						
Line of credit	[a]	2015	1.92%	Variable	$ --	$ --
Real estate term loans	[b]					
Property held for sale	[c]	2017	7.25%	Variable	1,221	1,268
Store locations	[d]	2017	2.92%	Variable	2,236	4,032
Store location		2019	6.00%	Fixed	393	458
Store location		2019	6.00%	Fixed	430	503
Store location		2019	6.00%	Fixed	524	611
Store location		2020	6.00%	Fixed	607	700
Store location		2020	7.20%	Fixed	1,401	1,588
Store location		2022	7.46%	Fixed	941	1,022
Other long-term debt						
Other term loans	[e]	Various	0.00%	Fixed	39	89
					7,792	10,271
Less: amounts due within one year					(942)	(896)
					$6,850	$9,375

[a] Provides up to $2,000,000 to support seasonal working capital needs. There were no borrowings or repayments in 2014 or 2013. Facility contains certain financial covenants, all of which the Company was in compliance with as of December 31, 2014 and 2013.

Variable interest rate is one-month LIBOR (0.17% and 0.15% as of December 31, 2014 and 2013, respectively) + 1.75%, or prime (3.25% at December 31, 2014 and 2013), at the Company's option.

This credit facility was established in October 2012 and has a three-year term expiring in 2015.

[b] All real estate term loans are collateralized by Company-owned real property.

[c] Variable interest rate is greater of prime (3.25% as of December 31, 2014 and 2013) + 1.00%, or 7.25%.

Note 6 – Long-term debt (continued)

[d] Variable interest rate is one-month LIBOR (0.17% and 0.15% at December 31, 2014 and 2013, respectively) + 2.75%. As discussed in Note 13, the Company repaid $1,560,000 of this loan with proceeds from the sale of real estate property in December 2014.

[e] Various automobile loans collateralized by the vehicles.

Maturities of long-term debt are as follows (amounts in thousands):

Year ending December 31,	
2015	$ 942
2016	989
2017	3,576
2018	763
2019	806
Thereafter	716
	$7,792

Note 7 – Income taxes

Components of income tax expense for the years ended December 31 consist of the following (amounts in thousands):

	2014	**2013**
Current expense:		
Federal	$1,497	$352
State	62	62
	1,559	414
Deferred expense:		
Federal	2,820	76
State	5	8
	2,825	84
Total provision for income taxes	$4,384	$498

The differences between the Company's effective tax rates and the federal statutory tax rate of 34%, as applied to income before income taxes, result from the effects of state income taxes, meals and entertainment, tax credits and other miscellaneous items.

Note 7 – Income taxes (continued)

Significant components of the Company's net deferred tax assets (liabilities) as of December 31 include (amounts in thousands):

	2014	2013
Current deferred tax assets:		
Capitalized inventory costs	$45	$ 56
Estimated payment carryovers	172	34
Net current deferred tax assets	217	90
Noncurrent deferred tax assets (liabilities):		
Deferred rent	25	18
State tax carryover credit	196	202
Basis difference on assets	(2,874)	143
Accumulated depreciation	(261)	(316)
Deferred revenue on gift cards	97	88
Net noncurrent deferred tax assets (liabilities)	(2,817)	135
Net deferred tax assets (liabilities)	($2,600)	$225

Management believes it is more likely than not that the Company will realize current and long-term deferred tax assets through the reduction of future taxable income. Accordingly, no valuation allowance is considered necessary as of December 31, 2014 or 2013. To assess the need for a valuation allowance management considered future reversals of existing taxable temporary differences and future taxable income exclusive of such reversing differences. Positive evidence includes the Company's history of profitable operations for all years from 2004 through 2014 (except for 2009) and the long carryover period for the state tax credit carryover (expiring in 2026).

Note 8 – Common stock purchase rights

Effective July 1991, the Company adopted a shareholder rights plan (the "Rights Plan") that entitles each registered shareholder to one common share purchase right ("Right") per common share held. The Rights attach to all certificates representing outstanding shares of common stock; no separate Rights certificates have been distributed. The terms of the Rights Plan provide that in the event of an unapproved tender to acquire 20 percent or more of the Company's common stock, the Right holders, except as noted below; can purchase common stock at 50% of the then current market price. The Rights Plan also provides that all Rights held by parties to the unapproved tender shall be null and void; thus, such party cannot participate in the discounted purchase of common stock. The Rights are redeemable, at the Company's option, at any time at $.01 per Right.

Note 9 – Stock option plans and stock-based compensation

The Company's stock option plans provide for the awarding of stock options to employees. These plans are administered by the Compensation Committee of the Board of Directors, which consists entirely of independent directors. All options are exercisable according to predetermined vesting schedules (all options vest within three years of the date of the grant) and remain in effect for ten years from the date of the grant.

As of December 31, 2013 all outstanding stock options had expired. There were no options granted, exercised, forfeited or expired for the years ended December 31, 2014 and 2013.

Note 10 – Stock purchase plan

The Company's Board of Directors adopted a stock purchase plan (the "Stock Purchase Plan") in 2008. The purpose of the Stock Purchase Plan is to provide a method whereby Directors, officers and other key employees of the Company will have an opportunity to acquire an ownership interest in the Company and thereby provide those who will be responsible for the continued growth of the Company with a more direct concern about its welfare and a common interest with the Company's other shareholders.

The Stock Purchase Plan provides a voluntary method of acquiring shares of the $.01 par value common stock of the Company in convenient installments by payroll deductions, supplemented by contributions from the Company.

Note 10 – Stock purchase plan (continued)

Eligible persons ("Participants") are all members of the Company's board of directors, officers and other employees who are selected from time to time by the Compensation Committee of the Board of Directors.

Participants may elect to have payroll deductions of a maximum of 100% of their compensation each pay period. The Company matches up to 100% of such deductions based upon the participant's years of continuous participation in the Stock Purchase Plan.

Funds deducted from a Participant's pay and contributions made by the Company to the Stock Purchase Plan on behalf of a participant (all of which is invested for the benefit of the participant) are taxable to the participant as wages or compensation for services.

Company contributions for the years ended December 31, 2014 and 2013 were $117,000 and $103,000, respectively.

The Stock Purchase Plan is not subject to the Employee Retirement Income Security Act of 1974.

Note 11 – Indemnity agreements

The Company has entered into indemnity agreements with its directors and executive officers which, to the extent permitted under applicable law, indemnify such persons against all expenses, judgments, fines and penalties incurred in connection with the defense or settlement of actions brought against them by reason of the fact that they are or were executive officers or directors of the Company, or assumed certain responsibilities in their official capacities.

In addition, the Company has entered into indemnity agreements with one officer and one former officer of the Company that provide additional indemnification for all liabilities and expenses in respect of certain lease obligations of the Company that have been personally guaranteed by either or both of them. If the Company fails to indemnify either of the individuals as required in the indemnity agreements or if either of these individuals are terminated for any reason as an employee of the Company, the Company will provide the terminated individual with one or more bank letters of credit to secure payment of an aggregate of $4,000,000 of such liability; however, the Company shall not be obligated to provide letters of credit aggregating more than $4,000,000 to them.

Note 12 – Commitments and contingencies

The Company leases some of its retail stores, its administrative offices and certain equipment under noncancellable operating leases. The leases expire in various years through 2033. The leases generally contain renewal options for periods ranging from 5 to 15 years and require the Company to pay all executory costs (such as property taxes, maintenance and insurance). Rental payments include minimum rentals plus contingent rentals based on revenue. The Company has not typically incurred significant amounts for contingent rentals.

The Company completed implementation of a new point of sale information system in January 2013. The system was leased from an unaffiliated third party beginning February 2013. The lease requires forty-five monthly payments of approximately $17,000 with an option to purchase the system at the end of the lease term.

The Company opened a new retail store in Little Elm, Texas (in the Dallas-Fort Worth market area) in August 2013. The facility was built on land owned by an unaffiliated third party lessor, and the Company entered into a sale-leaseback transaction with that lessor on the building and certain improvements. There was no significant gain or loss on the sale-leaseback. The lease covers the land, building and certain improvements. The lease has a twenty-year term expiring in 2033. Annual rental payments are approximately $200,000 and the Company is required to pay all executory costs (such as property taxes, maintenance and insurance).

Rental expense under the aforementioned leases was approximately $2,201,000 and $2,029,000 for the years ended December 31, 2014 and 2013, respectively.

As discussed in Note15, in January 2015 the Company purchased one retail store property from the lessor. Accordingly, future minimum lease payments are not included in the table below.

As also discussed in Note 15, the Company entered into a contract to purchase a second retail store property from the lessor in February 2015. The Company currently expects to complete the purchase transaction during the year ending December 31, 2015. Future minimum lease payments have been included in the table below.

Note 12 – Commitments and contingencies (continued)

Future minimum lease payments under noncancellable operating leases are as follows (amounts in thousands):

Year ending December 31,	
2015	$ 2,221
2016	2,170
2017	1,715
2018	1,259
2019	1,205
Thereafter	8,937
	$17,507

The Company also leases one retail store location that does not include minimum rentals. All rental payments are contingent based on revenue. The Company pays all executory costs (such as property taxes, maintenance and insurance). The lease expires in May 2015. Rental expense under the lease was approximately $71,000 and $67,000 for the years ended December 31, 2014 and 2013, respectively.

There are various claims and pending actions incident to the business operations of the Company from time-to-time. In the opinion of management, the Company's potential liability in all pending actions and claims, in the aggregate, will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Note 13 – Property sale and restricted cash

In December 2014, the Company sold a retail store property. Proceeds after transaction costs and repayment of the related debt were $9,143,000, and a $9,904,000 gain was recognized.

Because the Company intends to reinvest such proceeds in "like-kind" exchange properties as provided in Section 1031 of the Internal Revenue Code, the proceeds are held in escrow until replacement properties or acquired or the applicable exchange period ends, whichever comes first. Accordingly, the net proceeds are classified as Restricted Cash in the accompanying consolidated balance sheet as of December 31, 2014.

Note 14 – Property held for sale and impairment charge

In December 2014, the Company decided to sell undeveloped land adjacent to its retail store in Southlake, Texas. The property had a carrying amount of $762,000. An impairment charge of $387,000 was recorded to reduce the carrying amount to its estimated net realizable value of $375,000. The property has been reclassified to Property Held for Sale.

In January 2015, the Company entered into a contract to sell undeveloped land in Frisco, Texas that is classified as Property Held for Sale. Since the expected net realizable value of $865,000 is less than the carrying amount of $1,508,000, the Company recorded an impairment charge of $643,000 in December 2014.

Note 15 – Subsequent events

In preparing the accompanying consolidated financial statements, management has evaluated all subsequent events and transactions for potential recognition or disclosure through March 11, 2015, the date the consolidated financial statements were available for issuance.

In January 2015, the Company purchased an existing retail store property from the lessor for approximately $1,400,000. The property had been leased under a noncancellable operating lease with annual rental payments of approximately $100,000, and the Company had been required to pay all executory costs.

In January 2015, the Company entered into a contract to sell undeveloped land in Frisco, Texas. See Note 14.

In February 2015, the Company entered into a contract to purchase an existing retail store property from the lessor for approximately $4,000,000. The property is currently leased under a noncancellable operating lease with annual rental payments of approximately $278,000, and the Company is currently required to pay all executory costs.